

Armenia could be 'bridge' if Iran opens to the world

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Armenia is to reduce its import tariffs and transit fees for Iranian goods exported to the Eurasian Economic Union (EEU), Iranian Communications and IT Minister Mahmoud Vaezi told the November 10 'Tehran Times'. Vaezi was speaking after talks with visiting Armenian Economy Minister Karen Chshmaritian. Since Iran's nuclear deal with the international powers, Armenia is in a key position to engage with Iran, building on a recent deepening of bilateral relations. With a sizeable minority community in Iran and a record of historical cooperation, Armenia is well positioned to leverage the opportunities inherent in Iran's reintegration into the global economy.



A gas pipeline is seen near the Armenian settlement of Agarak (Reuters/Melik Baghdasarian)

What next

As the nuclear deal seems likely to hold, Iran's opening offers a strategic opportunity for Armenia, rooted in the country's role as a potential 'bridge'. Despite inherent challenges and limitations, with their shared need to overcome closed borders and deal with unstable or unfriendly neighbours, Armenia and Iran are poised to overcome the impediments of their shared isolation. Armenia can offer an alternative route for Iran to export its goods, particularly its energy.

Analysis

As a neighbouring state, Armenia is in a position to gain economically and politically, if most nuclear-related sanctions on Iran are lifted, as expected early next year (see IRAN: Technical issues may slow deal's implementation - October 16, 2015).

Trade, FDI and tourism

However, Armenian-Iranian trade is currently meagre, if relatively stable. For the first nine months of 2015, Armenia's total exports fell by 0.9% year-on-year, but exports to Iran increased by 0.1%. Total imports fell by 26.6%, reflecting Armenia's contracting economy (see ARMENIA: Russian recession may drag economy down - May 20, 2015), but the fall in imports from Iran (2.0%) was the smallest among Armenia's major trading partners. By turnover, Iran was Armenia's fourth-largest trading partner after the EU, Russia and China.

Foreign direct investment (FDI) also remains low, but Armenia's entry in the Russian-led EEU in January 2015 has attracted Iranian interest, seeing the potential to use Armenia for preferential access to a much larger market.

Tourism is one positive area. During the first half of 2014, some 35,000 Iranian tourists visited Armenia, a rise of more than 17% year-on-year. Iranians formed 7% of foreign visitors to Armenia, behind Russians, Georgians and EU citizens. There is significant potential for rapid expansion of tourism; the Armenian government has prioritised the sector and plans to accelerate the construction of hotels and smaller facilities.

Limited energy trade

Despite the seemingly attractive focus on expanding ties in the energy sector, the short-to-medium-term outlook for any substantial development of Armenian-Iranian energy projects is not promising.

Gas

Impact

- With two of its four borders closed, better links to Iran would be of great benefit to Armenia.
- Iran could have ambitions of becoming a mediator in South Caucasus's intractable 'frozen' conflict in Nagorno-Karabakh.
- Iran could offer Armenia its oil and gas at a discount to take market share from Russia.

Iran has great potential as a natural gas exporter (see IRAN: Gas could diversify European supplies in 2020s - August 24, 2015), but its pipeline to Armenia, formally inaugurated in March 2007, is of only minor significance.

Russia had succeeded in substantially reducing the pipeline's capacity to 2 billion cubic metres (bcm), not only negating potential competition for Russia's Gazprom from an Iranian rival, but also frustrating any hopes of Armenia becoming an energy transit hub by re-exporting Iranian gas.

The pipeline is not currently being used to its full capacity.

In 2014, Armenia imported just 383 million cubic metres (cm) of gas from Iran for about 189 dollars/1,000 cm, while purchasing more than 2.1 bcm of Russian gas at a price of 202 dollars/1,000 cm: Iranian gas has been less expensive than Russian.

However, it is not sold to Armenian enterprises or households but converted into electricity, most of which is exported to Iran.

Electricity

Volume and seasonality limit Armenia-Iranian electricity trade. A large joint project has centred on the construction of two hydro-electric plants on the Araks river along the Armenian-Iranian border, but there seems to be no significant demand for expanding the volume of electricity that Armenian plants provide to northern Iran.

There is interest in improving the power network connection, with plans to construct a 400-kilovolt (kv) transmission line connecting the countries' power grids by 2018, alongside the two existing 220-kv lines. The line would be financed mostly by the Export Development Bank of Iran under a 2004 agreement that sanctions on Iran put on ice.

The new line could double Armenian electricity exports, but the power will be generated by increased imports of Iranian gas from 2017 under the gas-for-electricity arrangement.

Transport hub?

There is greater potential in infrastructure and transport (see CAUCASUS: Transport links await political solutions - March 12, 2013). A general agreement was reached in 2007 on expanding railway links, with a feasibility study assessing the investment positively.

However, following Russia's acquisition of the Armenian railway network, Moscow will need to be cooperative if the project is to go ahead.

Iran could also benefit from completion of the North-South highway, which offers an easier road transport from the Armenian-Iranian border and Georgia. Funded by the Asian Development Bank, the project is to be completed by end-2017.

Other opportunities

The most attractive commercial areas for Armenia include: information technology (IT), building on Armenia's burgeoning IT sector, Armenian firms forming part of the supply chain for automotive and aircraft parts and supplies, and high-end consumer goods.

Such markets will depend on the easing of sector-specific sanctions on Iran, but offer the opportunity of years of pent-up demand and high profit margins.

Moscow is likely to respond to any attempts by Armenia to escape Russia's near-monopoly of energy supplies

Chshmaritian led a delegation of 65 Armenian businessmen to the Iranian Chamber of Commerce's Expo Exhibition business forum in Tehran on November 9. Expectations of trading opportunities concern such areas as medicine and medical devices, home appliances and household electronics, and Armenian products from the petrochemical, polymer and plastic industries, as well as sanitation and cosmetic products.

Official exchanges have resumed and could eventually include a visit by Iranian President Hassan Rouhani

Not all prospects are rosy

Armenian officials have already stepped up their engagement of Iran. Iranian First Vice President Eshaq Jahangiri paid a visit to Yerevan on October 14.

The obstacles for Armenia are numerous. Russia will want to retain its pre-eminence in the energy, economy and security fields, limiting how far Armenia can go in expanding relations with Iran.

The regional balance will be affected if Iran returns as a major player in the South Caucasus

Nevertheless, normalised relations with Iran are a serious opportunity for Armenia, mainly in terms of altering the delicate regional balance of power and influence in its favour.

In seeking to maximise the benefits of Iran's 'coming in from the cold', Armenia could enter a 'bidding war' with Azerbaijan, which has had a difficult relationship with Iran, but seems also to be positioning itself for Iran's likely return as a major international player (see AZERBAIJAN/IRAN: Nuclear deal would be game-changer - October 29, 2015).